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MONTEM's Interpretation of Seaborn Coal Market Pricing and Tent Mountain Mine Project Viability

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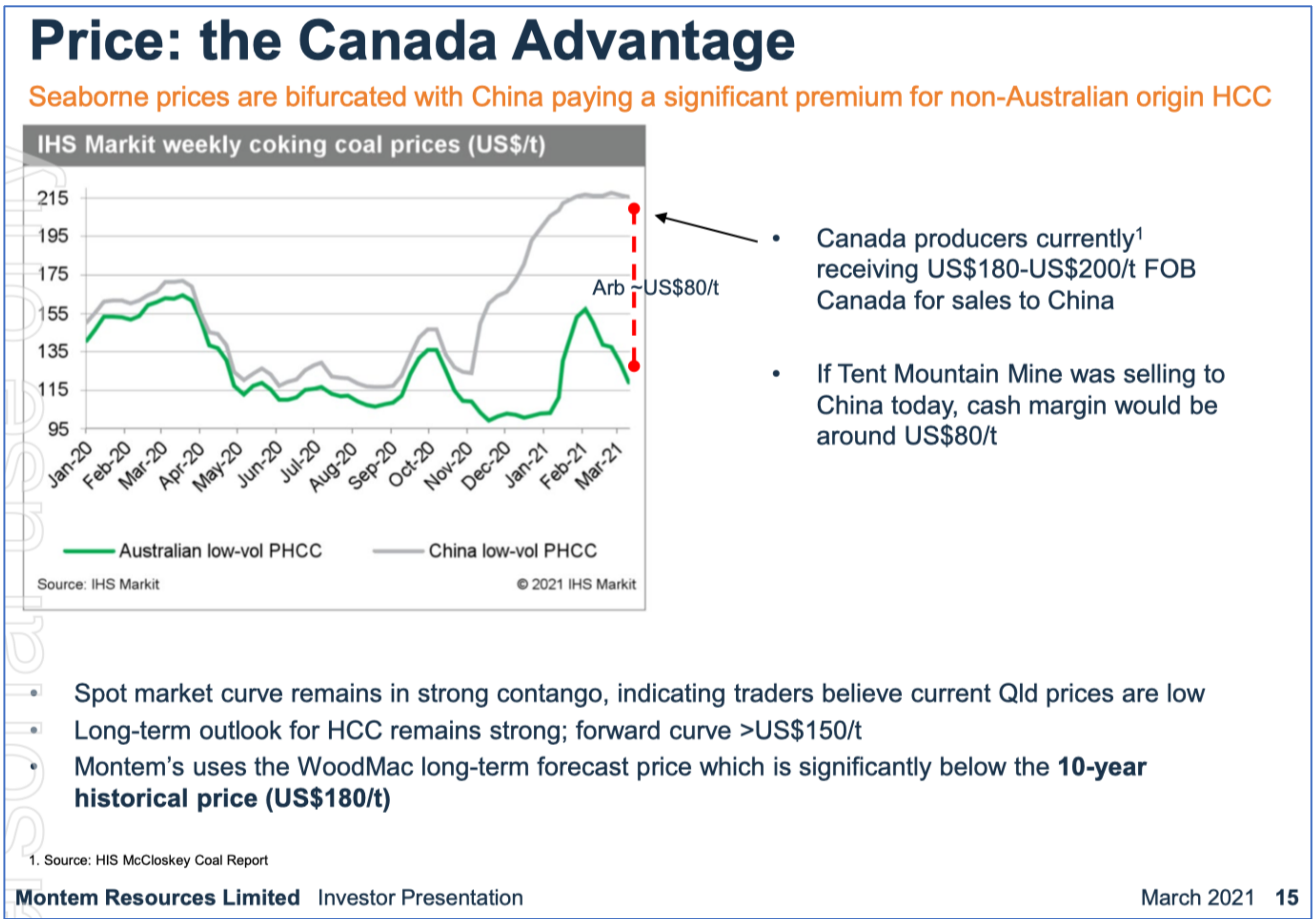
A dispute between Australia and China led to China restricting import of Australian coal end last year, causing a disbalance in the marketplace, increasing seaborne coking coal pricing into China and price volatility in international markets. Argus' White Paper of February 2021 reported that Prime Low Vol Hard Coking Coal prices soared to US$218.15/Tonne incl. freight to China, while the corresponding "free on board" slumped to US$103.50 (excluding freight). These opposite trends were caused by Australian coal, losing its important Chinese market sought other markets where it drove the price down, while other suppliers filled the gap left in the Chinese market.

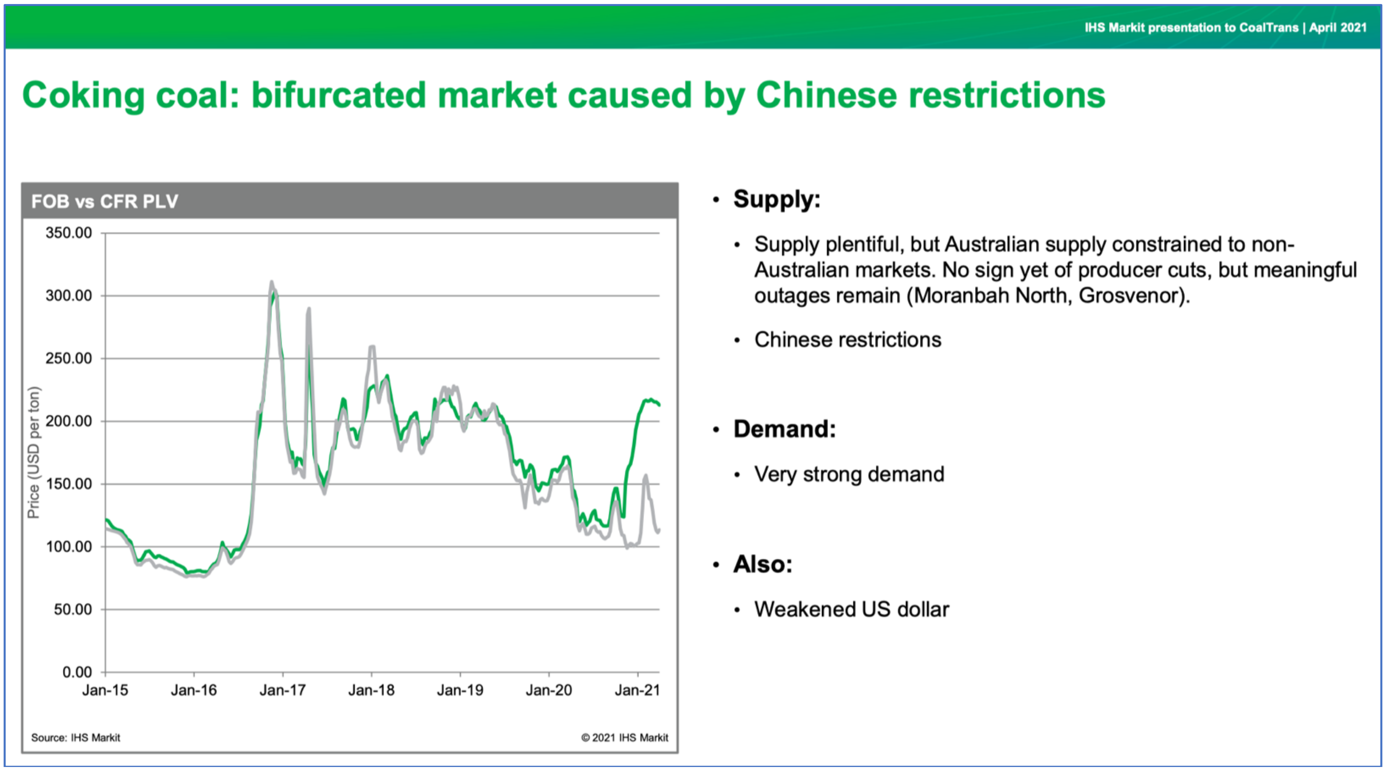
MONTEM's 121 Mining Investment Conference presentation of 17-19 March 2021, the slide below was presented, the US$ price of the most valuable Low-Volatile Prime Hard Coking Coal (Source IHS Markit):



However, the lower green line is free on board (fob) Dalrymple Bay Terminal, Australia, excluding ocean freight, the producer paying for transportation to the port, the customer paying for ocean freight to his steel plant's port, excluding China. The top gray line is the price including ocean freight into China (cfr), at present inflated due to China's restriction of Australian coal imports.

The producing mine will not receive the cfr price, rather the lower fob price at the port, minus transportation cost to the coast by rail, minus the cargo loading cost in Vancouver net. Therefore, the mine's margin will be less than the US$80 margin presented in the above slide.

At the CoalTrans Global 2021 conference on April 8, 2021, IHS Markit presented the graph below, the bottom grey line US$ fob/Tonne, the top green line US$ cfr China/Tonne:



Check on the price basis: Scaled off both graphs, the January 2021 pricing is the same at approx. US$102/Tonne fob and US$202/Tonne cfr China for the highest value Prime Low Vol Hard Coking Coals.

Moreover, Tent Mountain's coal product is not of equal quality and market value to Prime Low Volatile Coking Coal:

- Australian Prime Hard Coking coal at approx. 20.5% Volatile and FSI 8.5 coke button has a Hot Coke Strength CSR of 70 to 71.

- Tent Mountain at approx. 25.6% Volatile Matter and a low FSI 5.5 coke button produces coke CSR of 51 to 55 as tested in a small pilot oven. This implies Tent Mountain's coal produces less coke per tonne of coal due to its higher volatile matter content, with a lower CSR, implying a weaker coke. (A lower FSI indicates lower coke strength.)
  The theoretical CSR calculation gives a higher CSR of 60 to 65. However, theoretical CSR calculations are known to be inaccurate and local deposit specific.

Concluding:
Tent Mountain's Coking Coal is a Semi-hard to Tier 2 coking coal at best, of significantly lower market value as compared to the Prime Low Vol Hard Coking Coal presented in the above graphs. MONTEM would receive the lower free on board (fob) price, minus transportation to the coast, minus cargo loading cost net.
Tent Mountain's Measured resources are 3.7mln Tonnes only, the balance is Indicated & inferred, for an approx. 1.5mln Tonne/year mine production. This implies significant uncertainty for estimating product quality and the mine's economic viability. The Chinese import restriction for Australian Coal will be resolved, markets and supply will adjust, and the extreme price-markup for the Chinese market will come to an end. Investment, including the decision to start production at Tent Mountain will have to be based on regular Free-on-Board pricing projections.